



SOLUTIONS TO WATER & WASTE

DARCO WATER TECHNOLOGIES LIMITED
Registration No. 200106732C
(Incorporated in Singapore)
AND SUBSIDIARIES

CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

A. Condensed interim consolidated statement of profit or loss and other comprehensive income for the Half Year Ended 30 June 2021

	Note	Group Half year ended		Change %
		Unaudited 30-Jun-21 (\$'000)	Unaudited 30-Jun-20 (\$'000)	
Revenue	4	16,705	27,132	(38.4)
Cost of sales		(14,079)	(23,447)	(40.0)
Gross Profit		2,626	3,685	(28.7)
Other income	5	280	671	(58.3)
Distribution expenses		(820)	(588)	39.5
Administrative expenses		(4,398)	(5,518)	(21.0)
Finance costs	6	(109)	(107)	1.9
Reversal of impairment loss on financial assets		110	-	n.m
Loss before income tax	7	(2,311)	(1,857)	24.4
Income tax expense	9	(2)	(179)	(98.9)
Loss for the financial period, net of tax		(2,313)	(2,036)	13.6
Loss attributable to:				
Equity holders of the Company		(1,876)	(1,704)	10.1
Non-controlling interests		(437)	(332)	31.6
		(2,313)	(2,036)	13.6
Other comprehensive income/(loss):				
<u>Items that may be reclassified to profit and loss subsequently</u>				
Currency translation differences arising from consolidation		(45)	108	(141.7)
Other comprehensive (loss)/income for the financial period		(45)	108	(141.7)
Total comprehensive (loss)/income for the financial period		(2,358)	(1,928)	22.3
Total comprehensive loss attributable to:				
Equity holders of the Company		(1,922)	(1,598)	20.3
Non-controlling interests		(436)	(330)	32.1
		(2,358)	(1,928)	22.3
Earnings per share for loss for the period attributable to the owners of the Company during the year:				
Basic (SGD in cent)		(2.05)	(1.70)	20.3
Diluted (SGD in cent)		(2.05)	(1.70)	20.3

The basic and diluted earnings per share were the same as there were no potentially dilutive ordinary securities in issue as at 30 June 2021 and 30 June 2020.

Note: n.m - not meaningful

B. Condensed interim statements of financial position as at 30 June 2021

	Group		Company	
	Unaudited 30/06/2021	Audited 31/12/2020	Unaudited 30/06/2021	Audited 31/12/2020
	\$'000	\$'000	\$'000	\$'000
ASSETS				
Non-current assets				
Property, plant equipment	5,914	6,079	-	-
Right-of-use assets	848	900	-	-
Intangible assets	909	911	-	-
Investment in subsidiaries	-	-	19,321	17,219
Deferred tax assets	409	410	-	-
Other receivables	1,337	1,324	1,324	1,324
	<u>9,417</u>	<u>9,624</u>	<u>20,645</u>	<u>18,543</u>
Current assets				
Inventories	4,072	1,816	-	-
Trade and other receivables	51,095	61,180	11,451	14,579
Income tax recoverable	387	279	-	-
Cash and bank balances	19,915	19,006	1,322	1,965
Total current assets	<u>75,469</u>	<u>82,281</u>	<u>12,773</u>	<u>16,544</u>
Total assets	<u>84,886</u>	<u>91,905</u>	<u>33,418</u>	<u>35,087</u>
LIABILITIES				
Current liabilities				
Trade and other payables	35,174	39,470	1,911	1,560
Borrowings	3,254	5,380	-	1,325
Lease liabilities	223	315	-	-
Income tax payable	318	387	-	-
Total current liabilities	<u>38,969</u>	<u>45,552</u>	<u>1,911</u>	<u>2,885</u>
Non-current liabilities				
Borrowings	874	1,018	-	-
Lease liabilities	497	464	-	-
Deferred tax liabilities	6	3	-	-
Total non-current liabilities	<u>1,377</u>	<u>1,475</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>40,346</u>	<u>47,027</u>	<u>1,911</u>	<u>2,885</u>
Net assets	<u>44,540</u>	<u>44,878</u>	<u>31,507</u>	<u>32,202</u>

B. Condensed interim statements of financial position as at 30 June 2021 (Cont'd)

	Group		Company	
	Unaudited	Audited	Unaudited	Audited
	30/06/2021	31/12/2020	30/06/2021	31/12/2020
	\$'000	\$'000	\$'000	\$'000
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	76,766	76,766	76,766	76,766
Other reserves	(3,216)	(3,170)	-	-
Accumulated losses	(34,311)	(32,435)	(45,259)	(44,564)
	39,239	41,161	31,507	32,202
Non-controlling interests	5,301	3,717	-	-
Total equity	44,540	44,878	31,507	32,202

C. Condensed interim statements of changes in equity for the Half Year Ended 30 June 2021

	<u>Attributable to equity holders of the Company</u>					
	Share capital	Other reserve	Accumulated losses	Total	Non-controlling interests	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance as at 1.1.2021	76,766	(3,170)	(32,435)	41,161	3,717	44,878
Capital injection from non-controlling interests	-	-	-	-	2,020	2,020
Loss for financial period	-	-	(1,876)	(1,876)	(437)	(2,313)
Other comprehensive income/(loss) for the financial period, net of tax						
- Currency translation differences arising from consolidation	-	(46)	-	(46)	1	(45)
Total comprehensive loss for the financial period	-	(46)	-	(46)	1	(45)
Balance as at 30.06.2021	76,766	(3,216)	(34,311)	39,239	5,301	44,540

	<u>Attributable to equity holders of the Company</u>					
	Share Capital	Other reserves	Accumulated losses	Total	Non-controlling interests	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Balance as at 1.1.2020 as restated	76,766	(3,395)	(33,487)	39,884	3,261	43,145
Loss for the financial period	-	-	(1,704)	(1,704)	(332)	(2,036)
Other comprehensive income/(loss) for the financial period, net of tax						
- Currency translation differences arising from consolidation	-	106	-	106	2	108
Total comprehensive income/(loss) for the financial period	-	106	-	106	2	108
Balance as at 30.06.2020	76,766	(3,289)	(35,191)	38,286	2,931	41,217

**C. Condensed interim statements of changes in equity for the Half Year Ended 30 June 2021
(Cont'd)**

Company	Share Capital (\$'000)	Accumulated Losses (\$'000)	Total (\$'000)
Balance at 1.1.2021	76,766	(44,564)	32,202
Total comprehensive loss for the financial period	-	(695)	(695)
Balance at 30.06.2021	76,766	(45,259)	31,507

Company	Share Capital (\$'000)	Accumulated Losses (\$'000)	Total (\$'000)
Balance at 1.1.2020	76,766	(41,959)	34,807
Total comprehensive loss for the financial period	-	(355)	(355)
Balance at 30.06.2020	76,766	(42,314)	34,452

D. Condensed interim consolidated statement of cash flows for the Half Year Ended 30 June 2021

	Group half year ended	
	Unaudited	Unaudited
	30/06/2021	30/06/2020
	(\$'000)	(\$'000)
Cash flows from operating activities		
Loss before income tax	(2,311)	(1,857)
Adjustments for:		
Amortisation of intangible assets	3	150
Depreciation of property, plant and equipment	284	320
Depreciation of right-of-use assets	45	157
Gain on disposal of property, plant and equipment	(16)	(16)
Property, plant and equipment written off	-	1
Reversal of impairment loss on financial assets	(110)	-
Interest expense	109	106
Interest income	(27)	(42)
Unrealised exchange differences	69	(42)
Operating loss before working capital changes	(1,954)	(1,223)
Change in working capital:		
Inventories	(2,256)	(441)
Contract assets, net	(1,647)	(5,823)
Trade and other receivables	12,667	9,614
Trade and other payables	(5,118)	(4,382)
Refund of pledged fixed deposits and bank balances	1,708	379
Cash generated from/(used in) operations	3,400	(1,876)
Income taxes paid	(109)	(284)
Net cash generated from/(used in) operating activities	3,291	(2,160)

D. Condensed interim consolidated statement of cash flows for the Half Year Ended 30 June 2021 (Cont'd)

	Group half year ended	
	Unaudited 30/06/2021 (\$'000)	Unaudited 30/06/2020 (\$'000)
Cash flows from investing activities		
Purchase of property, plant and equipment	(138)	-
Proceeds from disposal of property, plant and equipment	16	16
Refund of fixed deposits with tenure more than 3 months	-	114
Interest received	27	42
	<hr/>	<hr/>
Net cash generated from investing activities	(95)	172
Cash flows from financing activities		
Proceeds from issuances of new shares, by way of cash	-	998
Capital injection from non-controlling interests	2,020	-
Repayment of borrowings	(957)	(6,491)
Principal repayment of lease liabilities	(48)	(37)
Interest paid	(110)	(106)
	<hr/>	<hr/>
Net cash used in financing activities	905	(5,636)
Net increase/(decrease) in cash and cash equivalents	4,101	(7,624)
Cash and cash equivalents at the beginning of financial period	12,937	20,179
Effect of exchange rate changes on cash and cash equivalents	(172)	168
	<hr/>	<hr/>
Cash and cash equivalents at the end of financial period	16,866	12,723

	Group	
	Unaudited 30/06/2021 \$'000	Audited 31/12/2020 \$'000
Cash and bank balances as per statements of financial position	19,915	19,006
Less: Fixed deposits pledged	(582)	(2,355)
Less: Bank balances pledged	(1,577)	(1,512)
	<hr/>	<hr/>
	(2,159)	(3,867)
Less: Fixed deposits with tenure more than 3 months	(73)	(73)
Less: Bank overdraft	(817)	(2,129)
	<hr/>	<hr/>
Cash and cash equivalents as per consolidated statement of cash flows	16,866	12,937

E. Notes to the condensed interim consolidated financial statements

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

Darco Water Technologies Limited (the "Company") is a limited liability company incorporated and domiciled in Singapore and is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST"). The address of the Company's registered office and its principal place of business is located at Harvest @ Woodlands, 280 Woodlands Industrial Park E5, #09-36, Singapore 757322.

The principal activities of the Company are those of investment holding and acting as a corporate manager and adviser and administrative centre to support business of the Company's subsidiaries. The principal activities of the subsidiaries are as follows: -

- (a) designing, installing, setting up and maintaining of industrial waste water treatment plant, ultra-pure system, testing of waste water and processed water, rendering of other related waste treatment plant services and trading in industrial water treatment equipment, spare parts and chemicals;
- (b) design and supply of environmental related equipment, centralised vacuum systems, refuse conveying system and any other engineering systems making use of vacuum technologies;
- (c) trading in vacuum cleaning systems and provision of related services; and
- (d) solid waste disposal treatment and incineration; noise and vibration prevention engineering; soil pollution control engineering; environmental monitoring system

2. Basis of preparation

The condensed interim financial statements for the six months ended 30 June 2021 have been prepared in accordance with SFRS(I) 1-34 Interim Financial Reporting issued by the Accounting Standards Council Singapore. The condensed interim financial statements do not include all the information required for a complete set of financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance of the Group since the last annual financial statements for the year ended 31 December 2020.

The accounting policies adopted are consistent with those of the previous financial year which were prepared in accordance with SFRS(I)s, except for the adoption of new and amended standards as set out in Note 2.1.

The condensed interim financial statements are presented in Singapore dollar ("S") which is the Company's functional currency, and all values are recorded to nearest thousand (S'000) as indicated.

2.1. New and amended standards adopted by the Group

The Group has adopted the new and revised Singapore Financial Reporting Standards (International) ("SFRS(I)s") that are mandatory for financial years beginning on and after 1 January 2021, where applicable. The adoption of these standards did not result in substantial changes to the Group's accounting policies, and there is no material impact on the financial statements of the Group as at 1 January 2021.

2.2. Use of judgements and estimates

In preparing the condensed interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2020.

E. Notes to the condensed interim consolidated financial statements

2. Basis of preparation

2.2 Use of judgements and estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

2.2.1. Critical judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following:

Revenue recognition on contract revenue

The Group has assessed its contracts in EE system as a single performance obligation due to the interdependence of services provided in these contracts.

Significant judgement is required in determining whether the performance obligations are distinct. Such considerations include the Group's assessment of whether the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customers and the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contracts.

For contracts with variable considerations (such as liquidated damages and discounts), the Group has applied judgement in determining the transaction price for the recognition of revenue. Such judgement includes assessment of the evaluation of any potential risks and factors which may affect the timely completion of the project as well as the quality of the output delivered to the customer.

2.2.2. Critical accounting estimates and assumptions

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next interim period are included in the following notes:

(a) Contract revenue – measuring progress

The Group recognises revenue from contract revenue over time using input method. The progress is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. Significant assumptions are required to estimate the total contract costs that will affect the measure of progress towards complete satisfaction of the performance obligations; and to estimate the variable consideration that is not contracted. In making these estimates, management relied on past experiences and the knowledge of the project engineers.

The carrying amounts of contract assets and contract liabilities arising from contract revenue as at 30 June 2021 are \$26,293,000 and \$15,557,000, respectively.

If the estimated total contract costs to complete of major contracts increase / decrease by 10% from management's estimates, the Group's revenue will decrease / increase by \$511,000 (31 Dec 2020: \$840,000).

E. Notes to the condensed interim consolidated financial statements

2. Basis of preparation (Cont'd)

2.2 Use of judgements and estimates (Cont'd)

2.2.2. Critical accounting estimates and assumptions (Cont'd)

(b) Impairment of financial assets

Impairment allowance for financial assets measured at amortised costs are applied using the ECL model, which requires assumptions of risk of default and expected loss rates. The Group uses judgement in making these assumptions and determining key inputs to the impairment calculation, taking into account the Group's past history, existing market conditions as well as forward-looking information relating to industry, market development and macroeconomic factors. Expected loss rate is based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, geographical location, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

(c) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested.

(d) Income tax

Current tax

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. In determining the income tax liabilities of a routine tax assessment year, management estimated the amount of capital allowance and the deductibility of certain expenses at each tax jurisdiction. Where the final tax outcome is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's income tax recoverable and payable as at 30 June 2021 amounted to \$387,000 and \$318,000 (31 Dec 2020: \$279,000 and \$387,000) respectively.

Deferred tax - recognised

Changes in income tax laws and rates may affect recorded deferred tax assets and liabilities in the future. As at 31 December 2020, a subsidiary in The People's Republic of China which enjoys a concessionary tax rate of 15% (2019: 15%), had recognised deferred tax assets of approximately \$409,000 (31 Dec 2020: \$ 410,000) on the basis that the concessionary tax rate will still be available at the timing of reversal of the temporary differences.

E. Notes to the condensed interim consolidated financial statements

3. Segment and revenue information

For management purposes, the Group has three operating and reportable segments – Engineered Environmental Systems (“EE Systems”), Water Management Services (“WM Services”) and Trading. The principal activities of the Group’s operating segments are summarised as follows:

- (i) EE Systems – Contract to designs, fabricates, assembles, installs and commission engineered water systems for industrial application;
- (ii) WM Services – Services and maintains water and wastewater treatment plants; and
- (iii) Trading – Trades and supplies of goods comprising chemicals, electrical controls and related instruments used in water treatment systems.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated by the Chief Executive Officer (the chief operating decision maker) based on gross profit or loss of the respective segment. Segment assets and liabilities reported to the CEO represent total assets and liabilities of the reportable segment excluding the corporate functions and any unallocated amount recorded in subsidiaries with multiple segment businesses and subsidiaries that have yet to commence operations.

Seasonality of operations

The Group’s business is not affected significantly by seasonal or cyclical factors during the financial period.

Business segments

The information for the reportable segments for the financial period ended 30 June 2021 and 2020 is as follows:

30 June 2021	EE				Total
	Systems	WM Services	Trading	Eliminations	
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Sales to external customers	8,737	3,763	4,205	-	16,705
Inter-segment sales	-	-	3	(3)	-
Total	8,737	3,763	4,208	(3)	16,705
Segment profit	809	284	1,533	-	2,626
Other information:					
Additions to property, plant and equipment	(126)	-	(12)	-	(138)
Amortisation of intangible assets	(3)	-	(1)	-	(4)
Depreciation of property, plant and equipment	(126)	(62)	(96)	-	(284)
Depreciation of right-of-use assets	(5)	(24)	(16)	-	(45)
Legal and other professional fees	(22)	(19)	(22)	-	(63)
Interest income	10	7	8	-	25
Finance costs	(66)	(13)	(30)	-	(109)
Gain on disposal of property, plant and equipment	4	6	6	-	16

3. Segment and revenue information (cont'd)

Business segments (Cont'd)

30 June 2020	EE	WM Services	Trading	Eliminations	Total
	Systems				
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue					
Sales to external customers	18,989	3,295	4,848	-	27,132
Inter-segment sales	-	-	50	(50)	-
Total	18,989	3,295	4,898	(50)	27,132
Segment profit	2,364	221	1,100	-	3,685
Other information:					
Additions to property, plant and equipment	-	-	-	-	-
Amortisation of intangible assets	(150)	-	-	-	(150)
Depreciation of property, plant and equipment	(189)	(53)	(76)	-	(318)
Depreciation of right-of-use assets	(133)	(9)	(13)	-	(155)
Legal and other professional fees	(43)	(25)	(11)	-	(79)
Interest income	13	7	11	-	31
Finance costs	(74)	(14)	(19)	-	(107)
Gain on disposal of property, plant and equipment	5	4	7	-	16

Reconciliation

(i) Segment profits

The following items are added to / (deducted from) segment profit to arrive at "profit / (loss) before income tax" as presented in the consolidated statement of profit or loss and other comprehensive income:

	30 June 2021	30 June 2020
	\$'000	\$'000
Segment profit from the reportable segments	2,626	3,685
Other income	280	671
Distribution expenses	(820)	(588)
Administrative expenses	(4,360)	(5,518)
Finance costs	(109)	(107)
Reversal of impairment loss on financial assets	110	-
Loss before income tax	(2,311)	(1,857)

3. Segment and revenue information (cont'd)

Reconciliation (Con'td)

(ii) Other material information

	30 June 2021	30 June 2020
	\$'000	\$'000
<u>Depreciation of property, plant and equipment</u>		
Segment total	(284)	(318)
Unallocated:		
- Relates to general and corporate assets	-	(2)
	<u>(284)</u>	<u>(320)</u>
<u>Depreciation of right-of-use assets</u>		
Segment total	(45)	(155)
Unallocated:		
- Relates to general and corporate assets	-	(2)
	<u>(45)</u>	<u>(157)</u>
<u>Legal and other professional fees</u>		
Segment total	(63)	(79)
Unallocated:		
- Arising from general and corporate activities	(222)	(450)
	<u>(285)</u>	<u>(529)</u>
<u>Interest income</u>		
Segment total	25	31
Unallocated:		
- Arising from general and corporate used bank balances	112	11
	<u>137</u>	<u>42</u>

Darco Water Technologies Limited (Incorporated in Singapore)
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4. Revenue

Disaggregation of revenue

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major type of goods and services and geographical location based on location of customers.

	Group			Total
	Contract revenue	Rendering of services	Sale of goods	
	\$'000	\$'000	\$'000	\$'000
30 June 2021				
Geographical markets				
PRC	4,872	-	-	4,872
Malaysia	2,153	3,582	4,028	9,763
Singapore	1,712	181	88	1,981
Vietnam	-	-	89	89
	8,737	3,763	4,205	16,705
Timing of revenue recognition				
At a point of time	-	2,436	4,205	6,641
Over time	8,737	1,327	-	10,064
	8,737	3,763	4,205	16,705
30 June 2020				
Geographical markets				
PRC	11,109	-	-	11,109
Malaysia	3,461	3,173	4,631	11,265
Singapore	4,419	109	150	4,678
Vietnam	-	13	67	80
Others	-	-	-	-
	18,989	3,295	4,848	27,132
Timing of revenue recognition				
At a point of time	-	1,711	4,848	6,559
Over time	18,989	1,584	-	20,573
	18,989	3,295	4,848	27,132

5. Other income

	Group	
	30 June 2021	30 June 2020
	\$'000	\$'000
Gain on disposal of property, plant and equipment	16	16
Gain on foreign exchange, net	7	72
Government grants	201	540
Interest income	27	42
Miscellaneous income	29	1
	<u>280</u>	<u>671</u>

6. Finance costs

	Group	
	30 June 2021	30 June 2020
	\$'000	\$'000
Interest expenses on:		
- borrowings	(66)	(104)
- lease liabilities	(21)	(2)
- other payables	(22)	(1)
	<u>(109)</u>	<u>(107)</u>

7. Profit/(loss) before income tax

This is determined after charging / (crediting) the following:

	Group	
	30 June 2021	30 June 2020
	\$'000	\$'000
Amortisation of intangible assets	4	150
Auditors' remuneration paid / payable to:		
- auditor of the Company	34	32
- other auditors	-	-
Direct material costs included in cost of sales	12,927	16,207
Sub-contractor costs	613	761
Depreciation of property, plant and equipment	284	320
Depreciation of right-of-use assets	45	157

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7. Profit/(loss) before income tax (Cont'd)

This is determined after charging / (crediting) the following:

	Group	
	30 June 2021	30 June 2020
	\$'000	\$'000
Legal and other professional fees	285	529
Leases expenses not included in lease liabilities – short term leases	55	147
Personnel expenses	4,705	5,377
Property, plant and equipment written off	-	1
Gain on disposal of property, plant and equipment	(16)	(16)
Research and development fees	231	1,139

8. Related party transactions

There are no material related party transactions apart from those disclosed elsewhere in the financial statements.

9. Taxation

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the condensed interim consolidated statement of profit or loss are:

Major components of income tax expense for the financial period were:

	Group	
	30 June 2021	30 June 2020
	\$'000	\$'000
Current tax		
- Current period income tax expenses	2	179

10. Property, plant and equipment

During the six months ended 30 June 2021, the Group acquired assets amounting to \$138,000 (30 June 2020: \$Nil).

11. Borrowings

	Group	
	30 June 2021	31 Dec 2021
	\$'000	\$'000
Amount repayable in one year or less, or on demand		
- Secured	3,254	4,055
- Unsecured	-	1,325
	3,254	5,380
Amount repayable after one year		
- Secured	874	1,018
	874	1,018
Total borrowings	4,128	6,398

Details of any collateral

As at 30 June 2021 and 31 December 2020, the secured borrowings are secured by the Group's freehold lands, leasehold lands, and buildings. The Company has also given corporate guarantee for the borrowings.

12. Share capital

	Group and Company			
	30 June 2021		31 December 2020	
	Number of	\$'000	Number of	\$'000
	ordinary shares		ordinary	
Issued and fully paid ordinary shares				
At beginning and end of the financial period/year	93,831,492	76,766	93,831,492	76,766

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

There were no outstanding convertibles and the Company did not hold any treasury shares as at 30 June 2021 and as at the end of the corresponding period of the immediately preceding financial year.

The Company's subsidiaries do not hold any shares in the Company as at 30 June 2021 and 31 December 2020.

13. Financial assets and financial liabilities

Set out below is an overview of the financial assets and financial liabilities of the Group as at 30 June 2021 and 31 December 2020:

(i) Financial instruments by category

	Group		Company	
	30 June 2021 \$'000	31 December 2020 \$'000	30 June 2021 \$'000	31 December 2020 \$'000
Financial assets at amortised cost:				
- Trade receivables	13,819	19,025	-	-
- Other receivables	8,726	8,692	11,451	14,579
- Contract assets	26,293	31,407	-	-
- Cash and bank balances	19,915	19,006	1,322	1,964
	68,753	78,130	12,773	16,544
Financial liabilities at amortised cost	24,644	32,043	1,911	2,845

14. Fair values of assets and liabilities

(i) Fair value of financial instruments that are carried at fair value

Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There has been no transfer from Level 1 and Level 2 to Level 3 during the financial period ended 30 June 2021. The Group had no financial assets or liabilities carried at fair value in 30 June 2021 and 31 December 2020.

The Company had no financial assets or liabilities carried at fair value in 30 June 2021 and 31 December 2020.

(ii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of financial assets and financial liabilities reported on the reporting date are reasonable approximation of their fair values, due to:

- their short-term nature; or
- they are market interest rate instruments; or
- they are floating rate instruments that are repriced to market interest rate on or near the reporting date.

(iii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

At the reporting date, there are no financial instruments in this category.

15. Dividends

No dividend has been declared/recommended for the current financial period in view that the Company was loss making and would need to conserve cash for the working capital and investment purpose.

16. Net asset value

	Group		Company	
	Unaudited 30/06/2021 Cents	Audited 31/12/2020 Cents	Unaudited 30/06/2021 Cents	Audited 31/12/2020 Cents
Net asset value (for issuer and group) per ordinary share based on issued share capital of the issuer at the end of the financial period/year.	47.47	47.83	33.58	34.32
Number of ordinary shares	93,831,492	93,831,492	93,831,492	93,831,492

17. Subsequent events

There are no known subsequent events which have led to adjustments to this set of interim financial statements.

Other information

1. Review

The condensed consolidated statement of financial position of Darco Water Technologies Limited and its subsidiaries as at 30 June 2021 and the related condensed consolidated profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended and certain explanatory notes have not been audited or reviewed.

2. Review of performance of the Group

(a) Consolidated statement of profit or loss and other comprehensive income

Revenue and Gross profit margin

Revenue of the Group decreased from \$27.1 million in 1H2020 to \$16.7 million in 1H2021.

Revenue from the EE Systems segment decreased from \$19.0 million in 1H2020 to \$8.7 million in 1H2021. This is mainly due to:

- (i) intense competition in China, has caused us facing difficulties in securing new projects;
- (ii) lesser EPC projects in Malaysia being up of tender and secured in 1H2021, as compared to 1H2020; and
- (iii) the current acute manpower shortage in Singapore, has resulted in delays to ongoing construction projects.

Revenue from the WM Services segment increased slightly from \$3.3 million in 1H2020 to \$3.8 million in 1H2021 mainly due to higher contribution from the Malaysian subsidiaries. In the prior year, revenue for WM Services segment is lower in 1H2020 due to the relatively stricter Movement Control Order (“MCO”) measures implemented by the Malaysian Government as a response to the COVID-19 pandemic.

Sales from trading of chemicals, spare parts, and other consumables reduced from \$4.8 million in 1H2020 to \$4.2 million in 1H2021 mainly due to the slowdown in customers’ production activities because of the COVID-19 pandemic situation in Malaysia.

The Group’s overall gross profit decreased from \$3.7 million in 1H2020 to \$2.6 million in 1H2021. However, the overall gross profit (“GP”) margin has increased from 13.6% in 1H2020 to 15.7% in 1H2021. The increase in overall GP margin is mainly due to the increase in GP margin for sales of goods and change of sales mix, comparing 1H2021 with 1H2020. The change in sales mix is due to the drop in the revenue from EE Systems.

Other income

The Group’s other income decreased from \$0.7 million in 1H2020 to \$0.4 million in 1H2021. This is mainly due to the decrease in government grant income from \$0.5 million in 1H2020 to \$0.2million in 1H2021.

Operating expenses

The Group’s marketing and distribution expenses, which is mainly attributed to our subsidiary in China, increased from \$0.6 million in 1H2020 to \$0.8 million in 1H2021 mainly due to increase in travelling costs in present period.

Administrative expenses comprising of staff salary, professional fees, depreciation, and other operating expenses decreased from \$5.5 million in 1H2020 to \$4.4 million in 1H2021. The China subsidiary has reduced the research and development fees from \$1.1 million in 1H2020 to \$0.2 million in 1H2021 due to the slowdown of the business activity in China.

Reversal of impairment loss on financial assets

Reversal of impairment loss on financial assets amounting to \$0.1 million in 1H2021 is mainly arising from the unwinding income earned on previously impaired other receivables.

Income tax expense

The income tax expenses recorded for 1H2020 mainly resulted from income tax provisions for the operating subsidiaries in Malaysia. The decrease in tax provision in the present year is mainly due to the operating loss generated by the Group in 1H2021.

(b) *Statements of financial position*

Current assets

The Group's current assets comprise the following items:-

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
	\$'000	\$'000
Trade receivables	13,819	19,025
Contract assets	26,293	31,407
Other receivables, deposits and prepayments	10,983	10,748
Trade and other receivables	51,095	61,180
Inventories	4,072	1,816
Income tax recoverable	387	279
Cash and bank balances	19,915	19,006
Total	75,469	82,281

Trade and other receivables

Trade receivables decreased from \$19.0 million as at 31 December 2020 to \$13.8 million as at 30 June 2021, mainly due to the lower outstanding billing in Malaysia and Singapore subsidiaries. Outstanding receivables from Malaysia and Singapore subsidiaries has reduced from \$9.3 million as at 31 December 2020 to \$3.3 million as at 30 June 2021.

Contract assets decreased mainly due to the decline in contract assets relating to China projects from \$25.9 million as at 31 December 2020 to \$20.5 million as at 30 June 2021. This is mainly due to the lesser project works in China in 1H2021.

Inventories

There is an increase in inventories from \$1.8 million as at 31 December 2020 to \$4.1 million as at 30 June 2021. This is mainly due to the stock in transit recorded in our China subsidiary, for projects commencing 2H2021, amounting to \$2.3 million as at 30 June 2021.

Cash and Bank balances

There is no significant fluctuation in cash and bank balances.

Non-current assets

Our non-current assets comprise of property, plant and equipment, Rights-of-use assets, intangible assets, deferred tax assets and other receivables.

Property, plant and equipment

The decrease in property, plant and equipment is mainly due to depreciation charges.

Right-of-use assets

The Group's right-of-use assets are derived mainly from the long-term leases of office space, warehouse, and staff hostel. There are no significant changes in rights-of-use assets.

Intangible assets

Intangible assets mainly consist of goodwill on acquisition. There is no significant fluctuation in intangible assets balances.

Current liabilities

Trade and other payables

The Group's trade and other payables comprise of the following:-

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
	\$'000	\$'000
Trade payables	18,099	22,091
Contract liabilities	15,557	14,359
Other payables and accruals	1,518	3,020
Total	35,174	39,470

The decrease in trade payables from \$22.1 million as at 31 December 2020 to \$18.1 million as at 30 June 2021 is mainly due to less purchases being made in the present period. This is in line with the decrease in the Group's business activities.

Contract liabilities increased mainly due to higher advance billing for China projects.

The decrease in other payables and accruals is mainly due to the reduction in accrued operating expenses for staff costs.

Borrowings

Total borrowings decreased from \$6.4 million as at 31 December 2020 to \$4.1 million as at 30 June 2021. The net decrease is mainly due to repayment of borrowings and bank overdraft amounting to \$2.3 million.

(c) Statement of cash flows

The Group's cash position was \$19.9 million as at 30 June 2021, as compared to \$19.0 million as at 31 December 2020. \$18.6 million out of the \$19.9 million is maintained at subsidiaries for their working capital to run daily operations and support on-going projects.

Cash used in investing activities in 1H2021 amounted to \$0.1 million and was attributed to the acquisition of property, plant, and equipment.

Cash generated from financing activities in 1H2021 of \$0.9 million was mainly due to additional injection of capital by non-controlling interest amounting to \$2.0 million in our Vietnam subsidiary, Darco InfraCo Vietnam Water Pte Ltd, during 1H2021. This has been partially offset by the repayment of borrowings amounting to \$1.0 million.

3. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results

In China and Malaysia, the performance of the Group's subsidiaries recorded poorer performances in 1H2021, as compared with 1H2020. The Group's operations in Malaysia had been negatively impacted by developments surrounding the COVID-19 pandemic to a larger extent than was previously expected, while the China subsidiaries faced mounting challenges in the face of stiff competition.

4. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the Group operates and any known factors or events that may affect the Group in the next operating period and the next 12 months

The Group foresees that business environment in China is likely to be challenging, as intense market competition has resulted in the Group's subsidiary having to bid for projects at lower margins.

Meanwhile, due to the long drawn-out COVID-19 pandemic and fluctuating infection numbers in Malaysia, our subsidiaries there will face pressures of their own, as the majority of tenders that were originally projected to be awarded this year have been postponed to a later date.

As for the situation in Singapore, the Group believes that the ongoing implementation of the Group's pneumatic waste conveyance systems will continue to be slow due to the COVID-19 measures imposed by the authorities, with construction costs being higher than normal, given the stringent labour regulations.

Similarly, construction of the Group's build-operate-own (BOO) drinking water project in Vietnam has been markedly impeded by the COVID-19 pandemic, where the government had called for limitations on movement and halt in construction activities on numerous occasions when the infection rates were high.

5. Interested person transactions

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
N/A	N/A	N/A

No IPT general mandate has been obtained by the Group from the shareholders.

There were no interested person transactions of \$100,000 and above entered into in 1H2021.

Darco Water Technologies Limited (Incorporated in Singapore)
(Company registration no: 200106732C)

6. Use of proceeds

Pursuant to the share placements to Sofos, RS and WZ, which were completed on 8 February 2019, 21 March 2019 and 23 March 2019 respectively, the Company received net proceeds from the issuance of new shares of approximately \$20,732,000, after deducting share issue expenses.

The utilisation of the share placement proceeds as at the date of this announcement is as follows:

	Engineering contracts and business expansion	Funding new projects, investments in environmental relation infrastructure projects and other investments	Working Capital	Total Funds received/ used
	\$'000	\$'000	\$'000	\$'000
<u>Funds received</u>				
Sofos Placement	-	630,000	270,000	900,000
RS Placement	-	1,470,000	630,000	2,100,000
WZ Placement	5,397,600	12,594,400	-	17,992,000
Share issue expenses	(59,100)	(181,900)	(19,000)	(260,000)
	5,338,500	14,512,500	881,000	20,732,000
<u>Funds used</u>				
Infrastructure projects	-	(8,882,709)	-	(8,882,709)
Engineering, Procurement and Construction ("EPC") business expansion and funding of new projects in China and Malaysia	(4,338,500)	(1,165,264)	-	(5,503,784)
Business expansion and funding of new projects – Pneumatic Waste Conveyance System	(1,000,000)	(4,000,000)	-	(5,000,000)
Working capital				
- Payment of staff salary			(863,000)	(863,000)
- Professional fees			(18,000)	(18,000)
Total	(5,338,500)	(14,047,973)	(881,000)	(20,267,473)
Net Balances	-	464,527	-	464,527

The above utilisation is in accordance with the intended use of proceeds of the Shares Placements as stated in the announcements dated 13 November 2018 and 22 February 2019.

7. Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director of chief executive officer or substantial shareholder of the issuer pursuant to Rule 704(13) in the format below. If there are no such persons, the issuer must make an appropriate negative statement.

The Company confirms that no person is occupying any managerial positions in the Company or any of its principal subsidiaries who is a relative of a director, chief executive officer or substantial shareholder of the Company.

8. Confirmation that the issuer has procured undertaking from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1)

The Company has received undertaking from all its directors and executive officers in the format as set out in Appendix 7.7 under Rule 720(1) of the Listing Manual of the SGX-ST.

9. Confirmation pursuant to Rule 705(5) of the Listing Manual of SGX-ST

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the unaudited half year financial statements for the period ended 30 June 2021 to be false or misleading in any material aspect.

On behalf of the Board of Directors,

Poh Kok Hong
Executive Director and CEO

Zhao Yong Chang
Executive Director

BY ORDER OF THE BOARD

Poh Kok Hong
Executive Director and CEO
13 August 2021